

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08  
FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00 LAB-04  
SIL-01 OMB-01 L-03 SS-15 NSC-05 /078 W  
-----001463 231825Z /50

R 231659Z FEB 78

FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 7265  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY LONDON  
AMEMBASSY LUXEMBOURG  
AMEMBASSY ROME  
AMEMBASSY THE HAGUE  
AMEMBASSY BELGRADE  
AMEMBASSY MOSCOW

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BRUSSELS ALSO FOR USEEC

E.O. 11652: GDS  
TAGS: ETRD EGEN EEC EWWT EFIN YO  
SUBJ: YUGOSLAV ECONOMIC RELATIONS WITH EC AND US

REF: (A) 77 STATE 301332; (B) BELGRADE 714;  
(C) BELGRADE 715; (D) BRUSSELS 794;  
(E) BRUSSELS 2617

1. SUMMARY: WE HAVE DISCUSSED YUGOSLAVIA WITH A  
RESPONSIBLE OFFICER OF THE QUAI'S ECONOMIC COOPERATION  
SERVICE. OUR CONVERSATION PRODUCED A CLEAR IDENTITY  
OF VIEWS REGARDING THE NEED TO KEEP BELGRADE'S  
ECONOMIC OPTIONS IN THE WEST VIABLE. HOWEVER, OUR  
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SOURCE SAID HE KNEW OF NO NEW IDEAS BEING CONTEMPLATED  
AT CURRENT EC/YUGOSLAV TALKS AT BRUSSELS WHICH WOULD  
ASSURE THIS EVENTUALITY WHILE THE USSR INCREASES ITS  
ABILITY TO ABSORB YUGOSLAV EXPORTS AND WESTERN  
EUROPE'S POSSIBILITIES ARE LIMITED. THE COMMUNITY, HE  
SAID, WOULD CONTINUE TO TREAT YUGOSLAVIA AS A SPECIAL  
CASE AND WOULD BE AS LIBERAL AS POSSIBLE IN NOT

PUSHING FOR CONCESSIONS WHICH WOULD FURTHER WIDEN BELGRADE'S \$2.4 BILLION 1977 TRADE DEFICIT WITH THE EC. MORE EUROPEAN INVESTMENT BANK ACTIVITY WILL BE ENCOURAGED, BUT DISCUSSIONS RE BALANCE OF PAYMENTS ASSISTANCE WILL CONTINUE TO BE EXCLUDED BY YUGOSLAVS. SOURCE STRESSED THAT FRANCE WAS NEVERTHELESS UNDER NO ILLUSION THAT TRADE OPTIONS WITH THE WEST -- NO MATTER HOW Viable -- COULD ALTER THE BASIC POLITICO-MILITARY FACTS WHICH LINK YUGOSLAVIA TO EASTERN EUROPE. END SUMMARY.

2. ON FEB 21, EMBASSY OFFICERS LUNCHEd WITH PATRICK O'CORNESSE, DEPUTY DIRECTOR OF THE FOREIGN MINISTRY OFFICE DIRECTLY RESPONSIBLE FOR FRENCH-EC ECONOMIC AFFAIRS. YUGOSLAVIA WAS A PRINCIPAL TOPIC OF DISCUSSION, WITH THE POINT OF DEPARTURE BEING THE RECENTLY BEGUN EC/YUGOSLAV TALKS IN BRUSSELS AIMED AT CONCLUDING A NEW FIVE-YEAR AGREEMENT. WE STRESSED THE POLITICAL DIMENSION OF YUGOSLAVIA'S PRESENT AND FUTURE ECONOMIC TIES WITH THE WEST IN GENERAL AND EUROPE IN PARTICULAR SINCE US SHARE OF TRADE WAS ONLY ABOUT 5 PERCENT. O'CORNESSE AGREED, AND BOTH PARTIES THUS QUICKLY FOUND THEMSELVES ON SAME SIDE OF ARGUMENT REGARDING NEED TO KEEP THEIR TRADE AND OTHER ECONOMIC RELATIONS WITH BELGRADE OPEN AND HEALTHY.

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3. AFTER HAVING AGREED TO OUR DEFINITION OF THE PROBLEM, O'CORNESSE WENT ON TO DESCRIBE THE EC'S CURRENT QUANDARY MANIFESTED IN AN INEXORABLE GROWTH OF

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YUGOSLAV/SOVIET TRADE STEMMING FROM RUSSIAN STATE-TRADING POLICIES. SOVIETS TAKE EVER-GREATER QUANTITIES OF YUGOSLAV EXPORTS, WHILE THE EC -- BEING BOUND BY COMMERCIAL CONSIDERATIONS -- CAN NOT KEEP PACE. HE STRESSED FRANCE'S FULL SUPPORT OF EC GRANTING CONTINUED SPECIAL TRADE TREATMENT WHICH YUGOSLAVS INSIST THEY WARRANT. NINE, HE SAID, WILL NOT BE PUSHING FOR CONCESSIONS WHICH COULD HAVE EFFECT OF FURTHER WIDENING BELGRADE'S \$2.4 BILLION 1977 COMMERCIAL ACCOUNT DEFICIT WITH EC. HE NOTED, HOWEVER, THAT WORKER REMITTANCES AND TOURISM ARE LIKELY AGAIN THIS YEAR TO BE HARD-PUT TO OFFSET THIS COMMERCIAL DEFICIT. PRIOR SPECIAL ARRANGEMENTS IN YUGOSLAVIA'S FAVOR, LIKE THAT

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FOR BABY BEEF, ARE MOST LIKELY TO BE CONTINUED AT CURRENT LEVELS, BUT O'CORNESSE ADDED THAT PREVAILING ATMOSPHERE OF RECESSION WOULD MAKE DIFFICULT ANY INCREASED EC CONCESSIONS IN THESE SPECIFIC AREAS.

4. BEYOND HIS WILLINGNESS TO SEE CONTINUED LIBERAL TREATMENT OF EC/YUGOSLAV TRADE WITHIN THE SAME FRAMEWORK AND AT THE SAME GENERAL LEVELS AS THOSE PERTAINING TO EXISTING CONCESSIONARY ARRANGEMENTS, O'CORNESSE SAID HE KNEW OF NO NEW IDEAS BEING CONTEMPLATED AT THE CURRENT BRUSSELS TALKS. HE INDICATED THERE WAS CURRENTLY NO ASSURANCE OF THE FUTURE GROWTH OF BELGRADE'S ECONOMIC OPTIONS IN THE WEST TO A DEGREE WHICH COULD PROVIDE MUCH REAL LEVERAGE AGAINST SOVIET STATE-TRADING POLICIES. THE EUROPEAN INVESTMENT BANK, HE SAID, WILL BE ENCOURAGED

TO INCREASE ITS LEVEL OF ACTIVITIES IN YUGOSLAVIA,  
BUT TRADITIONAL RED TAPE WILL STILL ENCUMBER  
INVESTMENT CAPITAL, AND OF COURSE GOY POLICY WILL NOT  
PERMIT DISCUSSIONS OR NEGOTIATIONS WITH THE WEST  
ON DIRECT BALANCE OF PAYMENTS PROBLEMS.

5. IN CONCLUSION, O'CORNESSE ADDED THAT FRANCE WAS  
UNDER NO ILLUSION THAT TRADE OPTIONS WITH THE WEST --  
NO MATTER HOW Viable -- COULD ALTER THE BASIC POLITICO-  
MILITARY FACTS WHICH LINK YUGOSLAVIA TO EASTERN EUROPE.  
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## Message Attributes

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**Executive Order:** GS  
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